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JAPAN'S TRADE EXPANSION

by

T. A. BISSON

with the aid of the Research Staff of the Foreign Policy Association

CONTENTS

	PAGE
EXTENT OF JAPAN'S TRADE GAINS	195
Japan's Balance of Payments	196
REGIONAL DISTRIBUTION OF EXPORT GAINS	197
Japanese-American Trade	200
CONTENT OF EXPORT TRADE	200
ANGLO-JAPANESE TEXTILE COMPETITION	202
JAPAN'S COMPETITIVE ADVANTAGES	204
Depreciation of the Yen	205

INTRODUCTION

FOR two years the rapid expansion of Japan's export trade, which began in August 1932, has constituted one of the major paradoxes of the world economic upswing.¹ In other countries, the revival has been mainly domestic; in Japan, it has centered largely on foreign trade. While other countries have regained only a fraction of their lost foreign markets, Japan's total trade is already approaching its pre-depression level.

Although Japan's export gains have been achieved largely in the field of cotton, rayon and woolen yarns and fabrics, great advances have also taken place in the export of many other products. Between 1931 and 1933, in terms of the yen, Japan doubled the export value of its cotton yarns and tissues, trebled that of rayon yarns and tissues, and increased that of woolen yarns and tissues more than sevenfold. During the same period Japan doubled the export value of its potteries and glass, lamps and parts, and of drugs, chemicals, medicines and explosives; nearly trebled that of tinned and bottled foods (chiefly fish), and metal manufactures; trebled that of toys, dyes and pigments, and vehicles and parts (chiefly bicycles and tires); and quadrupled that of straw plait.²

The inroads made by Japanese exports during the past two years in markets normally pre-empted by other countries aroused general hostility. Charges of unfair trade competition, often unsupported by adequate investigation or factual data, were levelled against Japan from many quarters. Among the charges most frequently made were those of "dumping," excessive depreciation of the yen, and "sweated" labor. Countries chiefly affected by Japan's trade expansion raised tariff barriers against the influx of Japanese goods, or took other measures to protect their industries and markets. The Lancashire cotton interests of Great Britain, severely hit by the rapid growth of Japan's exports of cotton piece-goods, early secured governmental action to safeguard their position. At first confined chiefly to India, this action later took the form of quota restrictions against Japanese goods in Britain's Crown Colonies.

These developments have raised a complex problem, involving many different factors. The extent of Japan's trade gains, measured both in value and volume; the changes that have occurred in Japan's balance of international payments; the regional shifts of

1. Cf. Maxwell S. Stewart, "Paradoxes of World Recovery," *Foreign Policy Reports*, August 15, 1934.

2. For detailed figures, cf. Tables VIII and X.

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Japanese trade since 1931; the rapid advance in Japan's export of cotton piece-goods, giving rise to the Anglo-Japanese trade controversy; and, finally, the causes operating to improve Japan's competitive position must

all be taken into account. An examination of this kind should afford the basis for an evaluation of Japan's prospects as an exporting nation, and the probable effects of its bid for an increased share of world trade.

EXTENT OF JAPAN'S TRADE GAINS

The trend of the total merchandise trade of Japan proper in the last two decades is shown in Table I. Both in exports and imports, substantial gains were registered in 1932 and 1933 over the low point of 1931. Nevertheless, the total export and import trade of 1933 remained well below the 1924-1929 level, reflecting the general decline in world trade. It is noteworthy that the best showing is made in the export column. Exports for 1933 increased 32 per cent over 1932, and 62.3 per cent over 1931. They not only slightly surpassed the 1924 figure, but also measurably approached the general 1924-1929 level.

Since 1929 a notable change has taken place in Japan's merchandise trade balance. Except for the abnormal period during the World War, Japan's merchandise trade had been characterized by a steady excess of imports, which reached its highest levels be-

tween 1920 and 1928. In the five-year period since 1929, however, this excess of imports has remained well below 100 million yen. The unusually low import excess in 1932 and 1933 shows that the gain in exports has been accompanied by a relatively smaller increase of imports.

The figures on per capita trade illustrate an even more significant change in the position of foreign trade in Japan's national economy. Until 1929, despite rather wide variations, Japan's per capita trade showed a generally upward trend. The per capita figure of 55.16 yen in 1933, however, was markedly below the 1924-1929 average. Furthermore, although the export-import total for 1933 was well above that of 1923, the per capita figure fell somewhat below 1923. While these facts are still inconclusive, they raise the question whether Japan's trade expansion will be able to keep pace with the growth of its population.

Table I

Japan's Total Foreign Trade, 1913-1933³
(in thousands of yen)

Year	Exports		Imports		Exports and Imports		Excess of Exports(+) / Imports(-)
	Total Value	Per Head	Total Value	Per Head	Total Value	Per Head	
1913	632,460	11.85	729,432	13.67	1,361,892	25.52	-96,971
1914	591,101	10.92	595,736	11.00	1,186,837	21.92	-4,634
1915	708,307	12.89	532,450	9.69	1,240,757	22.58	+175,857
1916	1,127,468	20.26	756,428	13.59	1,883,896	33.85	+371,040
1917	1,603,005	28.45	1,035,811	18.39	2,638,816	46.84	+567,194
1918	1,962,101	34.62	1,668,144	29.44	3,630,245	64.06	+293,957
1919	2,098,873	36.67	2,173,460	37.97	4,272,332	74.64	-74,587
1920	1,948,395	33.64	2,336,175	40.34	4,284,569	73.98	-387,780
1921	1,252,838	21.31	1,614,155	27.50	2,866,993	48.81	-361,317
1922	1,637,452	27.54	1,890,308	31.79	3,527,760	59.33	-252,856
1923	1,447,751	24.02	1,982,231	32.89	3,429,981	56.91	-534,480
1924	1,807,035	29.58	2,453,402	40.16	4,260,437	69.74	-646,367
1925	2,305,590	37.16	2,572,658	41.46	4,878,248	78.62	-267,068
1926	2,044,728	32.41	2,377,484	37.69	4,422,212	70.10	-332,757
1927	1,992,317	31.13	2,179,154	34.05	4,171,471	65.18	-186,837
1928	1,971,955	30.34	2,196,315	33.79	4,168,270	64.13	-224,359
1929	2,148,619	32.61	2,216,240	33.63	4,364,859	66.24	-67,621
1930	1,469,852	21.97	1,546,071	23.11	3,015,923	45.08	-76,219
1931	1,146,981	16.91	1,235,673	18.21	2,382,654	35.12	-88,691
1932	1,409,992	20.78	1,431,461	21.10	2,841,453	41.88	-21,469
1933	1,861,046	27.17*	1,917,220	27.99*	3,778,266	55.16*	-56,174

* Estimated.

The changes in the volume and value of Japanese exports during the past six years

are shown in Table II. Figures are for Japan proper, excluding Korea and Formosa.

3. *The Financial and Economic Annual of Japan, 1933* (Tokyo, Department of Finance), p. 124; *Monthly Return of*

the Foreign Trade of Japan (Tokyo, The Department of Finance), December 1933, p. 2.

Table II

Volume and Value of Japan's Exports, 1928-1933⁴
(000's omitted)

Year	Volume*	Index	Yen Value	Index	Gold Dollar Value	Index
1928	6,485	100.0	1,971,955	100.0	915,184	100.0
1929	6,206	95.7	2,148,619	108.9	990,513	108.2
1930	6,246	96.4	1,469,852	74.5	725,960	79.3
1931	5,295	81.8	1,146,981	58.1	566,150	61.9
1932	5,956	91.8	1,409,992	71.5	396,349	43.3
1933	7,307	112.7	1,861,046	94.4	374,256	40.9

*In thousand "cargo" tons (partly of 2,240 lbs.; partly of 40 cubic feet), of which by weight: 2,701 in 1928; 2,442 in 1929; 2,533 in 1930; 1,938 in 1931; 1,889 in 1932; 2,248 in 1933.

The most striking feature of Japan's trade expansion is the large increase in the volume of goods exported. In 1933 the export volume exceeded that of 1928 by nearly one million tons.⁵ This increase in volume, measured by the index figure of 112.7, far outran the corresponding increase in yen value, which reached only 94.4. The difference represents the very marked decline in

the sale prices of Japanese goods. Despite the gains registered both in volume and yen value, the gold dollar value of Japanese exports sank to its lowest level in 1933.

JAPAN'S BALANCE OF PAYMENTS

A summary of the balance of international payments of Japan, including Korea and Formosa, is shown in Table III.

Table III

Summary of Balance of Payments of Japanese Empire, 1927-1931⁶
(in millions of yen)

GOODS, SERVICES AND GOLD					CAPITAL ITEMS			ALL ITEMS: Balance Equals Errors*
	Mer- chandise	Interest and dividends	Other Services	Gold	Total	Long- term	Short- term	Total
1927 Credit	2,106.6	99.6	391.4	36.1	2,633.7	150.4	172.7	323.1
Debit	2,389.7	102.8	246.4	....	2,738.9	276.6	....	276.6
Balance ..	-283.1	-3.2	+145.0	+36.1	-105.2	-126.2	+172.7	+46.5
1928 Credit	2,077.6	84.0	430.5	....	2,592.1	336.3	63.1	399.4
Debit	2,401.0	108.0	255.7	0.4	2,765.1	282.9	....	282.9
Balance ..	-323.4	-24.0	+174.8	-0.4	-173.0	+53.4	+63.1	+116.5
1929 Credit	2,250.2	102.4	477.3	....	2,829.9	297.9	129.3	427.2
Debit	2,413.9	122.2	274.8	0.6	2,811.5	350.7	133.4	484.1
Balance ..	-163.7	-19.8	+202.5	-0.6	+18.4	-52.8	-4.1	-56.9
1930 Credit	1,547.8	90.7	407.3	308.6	2,354.4	361.9	18.0	379.9
Debit	1,702.5	115.9	254.7	21.9	2,095.0	453.9	221.4	675.3
Balance ..	-154.7	-25.2	+152.6	+286.7	+259.4	-92.0	-203.4	-295.4
1931 Credit	1,199.5	76.3	351.9	419.8	2,047.5	401.3	3.9	405.2
Debit	1,339.4	99.8	245.7	31.8	1,716.7	638.0	....	638.0
Balance ..	-139.9	-23.5	+106.2	+388.0	+330.8	-236.7	+3.9	-232.8

*The balance figure seems to point to errors or omissions in the items under goods, services and gold, but it is at least as likely to indicate errors or omissions in the opposite direction under capital items.

Beginning with 1929, a significant change has taken place in Japan's balance of payments. In 1928 a net surplus of imports on goods, services and gold, amounting to 173 million yen, was balanced by net capital bor-

rowings totaling 116.5 million yen.⁷ This operation illustrated the normal method by which the balance of Japan's international payments had been achieved.⁸ In the process of building its industrial plant Japan was

4. Statistical Year-Book of the League of Nations, 1933-34 (Geneva, 1934), p. 185; Monthly Return of the Foreign Trade of Japan, cited, December 1933, p. 105; Commerce Year-book, 1932 (Washington, U. S. Department of Commerce, 1933), Vol. II, p. 551; Foreign Commerce Yearbook, 1933 (Washington, U. S. Department of Commerce, 1934), p. 267. For the years preceding 1928, the total volume of Japanese trade was 4,351,000 cargo tons in 1924; 5,918,000 in 1925; 6,090,000 in 1926; and 5,785,000 in 1927. The gold dollar value was \$744,318,000 in 1924; \$946,214,000 in 1925; \$963,476,000 in 1926; and \$944,558,000 in 1927.

5. Since the weight of different classes of goods varies widely, even a volume measurement of trade must be viewed with caution. In this case, however, the fact of a very large expansion of trade volume seems to be established.

6. League of Nations, Balances of Payments, 1931 and 1932 (Geneva, 1933), p. 122; *Ibid.*, 1930, p. 111.

7. The balance of 56.5 million yen due to errors and omissions probably falls under short-term operations and should therefore be added to the capital items, bringing total borrowings up to 173 million yen.

8. Except for a brief period during the war, when there was a large surplus of merchandise exports. Cf. Table I.

borrowing funds abroad, and thus increasing its foreign indebtedness.

In the 1929-1931 period, however, a contrary process set in. Since 1929 there has been a net export of goods, services and gold, balanced by net capital loans. Thus, while the steady net exports of interest and dividends reflect Japan's continued debtor position, the tide seems to have turned. From an importer of capital, Japan has apparently become an exporter of capital.

It is still too early to judge whether this healthy development marks a permanent shift in Japan's economic status. The issue will be decided by the further changes that

occur in Japan's balance of goods, services and gold. In 1930 and 1931 the net export surplus on these items was achieved by means of large specie exports—an unhealthy sign. From the evidence at hand, however, it seems possible that a rectification of this weakness may have occurred in 1932 and 1933. In these years, the export of specie has been curtailed, and the excess of merchandise imports further reduced—a development which would tend to achieve an export surplus of goods, services and gold on a sounder basis. In so far as Japan's trade expansion has aided in closing the gap between merchandise imports and exports, it has strengthened this development.

REGIONAL DISTRIBUTION OF EXPORT GAINS

With the major exception of its raw silk output, which is marketed almost wholly in the United States, the great bulk of Japan's export trade consists of low-priced manufactured products. Markets for these goods have necessarily been sought in colonial or semi-colonial areas, where a low standard of living prevails. Japan's commercial advance in this direction was early favored by its geographical proximity to the vast Eastern populations. Its long-established markets have been located in the neighboring Asiatic countries, particularly China, India,

and the Dutch East Indies. The vigorous recovery of Japanese export trade which began in 1932, however, has been marked by a new phenomenon—rapid expansion in the low-price markets of Africa, the Near East and Latin America. Whereas the decline in Japan's sales to Far Eastern markets after 1929 had been nearly regained by 1933, its sales in Africa, the Near East and Latin America far surpassed the 1929 peak.

Table IV shows the fluctuations in Japan's export trade to Asiatic countries during the 1928-1933 period.

Table IV

Japan's Exports to Asiatic Countries, 1928-1933⁹
(in thousands of yen)

Country	1928	1929	1930	1931	1932	1933
China Proper	304,013	281,880	225,250	143,877	129,479	108,253
Manchuria	69,128	64,772	35,575	11,874	25,947	82,071
Kwantung Territory	110,190	124,476	86,814	65,542	120,584	221,068
Hongkong	56,204	61,065	55,646	36,754	18,041	23,419
British India	146,006	198,056	129,262	110,367	192,492	205,155
Straits Settlements	20,449	27,928	26,930	19,120	25,549	46,133
British Borneo .....	....	....	....	54	51	138
Dutch East Indies ..	73,414	87,125	66,047	63,450	100,251	157,488
French Indo-China ..	4,112	2,695	2,412	1,710	2,344	3,680
Asiatic Russia	11,197	15,033	26,973	14,941	13,065	12,090
Philippine Islands ..	29,054	30,596	28,369	20,425	22,362	24,051
Siam	5,763	10,633	9,476	4,722	8,581	18,124
Aden .....	....	....	6,136	4,809	8,307	7,193
Others	5,399	10,969	5,134	7,373	10,560	21,773
TOTAL (in yen)	834,934	915,232	704,030	505,018	677,613	930,637
GOLD DOLLARS ..	384,493	422,246	347,720	246,701	190,477	187,151

For the purpose of analyzing Japan's total trade with China, the first four regions in Table IV should be considered as a unit. On this basis, Japan's exports to Chinese areas have fallen from ¥539,535,000 in 1928 to ¥434,811,000 in 1933—a decline of more than 100 million yen. The recent gains in Manchuria and the Kwantung leased territory

have been more than offset by large losses in Hongkong (until 1933) and China proper. Despite the general recovery experienced by Japan's export trade in 1933, the value of sales to China proper fell nearly 200 million yen below that for 1928. The reasons commonly assigned for this continued decline include the anti-Japanese boycott, the higher Chinese tariffs recently put into effect and the growth of local industries. These factors, however, seem insufficient to account

9. *The Japan Year Book, 1933* (Tokyo, The Foreign Affairs Association of Japan, 1933), p. 400; *Monthly Return of the Foreign Trade of Japan*, cited, December 1933, p. 48; *Monthly Circular* (Tokyo, Mitsubishi Economic Research Bureau), September 1934, p. 31.

for the extraordinarily marked decline of Japan's sales to China proper. Since May 1932 the boycott has languished as a result of the Nanking government's rigorous suppression of all public efforts to foster boycott activities. Japanese goods have surmounted much higher tariff barriers than those erected by China, and have successfully competed with the entrenched local textile industries of British India. It seems more likely that the large-scale smuggling and re-routing of Japanese goods into China, as a result of which Japan's total sales do not show up in the trade statistics of the Chinese Maritime Customs, is responsible for what is only an apparent decline.¹⁰ Actual Japanese exports to China are without question much larger than those recorded. The reductions in the Chinese tariff made effective by the Nanking government on July 3, 1934, moreover, should further increase sales of Japanese goods in China.¹¹

Japanese exports to Manchuria and the Kwantung leased territory in 1933 show an increase of considerably more than 100 million yen over 1928. This gain, however, has resulted chiefly from the large capital sums advanced by Japan for developmental purposes in Manchoukuo. It can be maintained only so long as Japan is able to stand the strain of such advances, which in the aggregate cannot be expected to yield profitable returns for some considerable time—if at all.

British India constitutes the second largest Asiatic market for Japanese goods. Recent increases in Japanese exports to British India have brought the 1932-1933 figure approximately equal to the peak of 1929. Indian tariff increases, and the recent Indo-Japanese trade pact,¹² should operate to stabilize or reduce this figure in 1934.

The most striking advance has been registered in the Dutch East Indies, where Japan's sales for 1933—in terms of the yen—were double the 1928-1929 level. Japanese trade with the Dutch colony now exceeds the latter's trade with the Netherlands. It is also marked by a large "favorable" balance for Japan, since Japanese imports from the Dutch East Indies in 1933 aggregated only ¥55,709,966. The Japanese advance has been achieved in the face of higher tariff barriers erected by the Dutch colonial authorities. It

has coincided with the extensive replacement of former Chinese middlemen by Japanese merchants and sales agencies, which has further alarmed the Dutch authorities.¹³ In an effort to deal with these issues, a Dutch-Japanese trade conference opened at Batavia on June 4, 1934. After fruitless negotiations, the conference came to a standstill on July 25, when the Dutch authorities imposed quotas on a number of Japanese products which were rapidly monopolizing the local market.¹⁴ An attempt has since been made to resume the conference on the basis of compromises reached in conversations at Batavia, The Hague and Tokyo.¹⁵

Japanese exports to the Philippine Islands changed relatively little in the 1928-1933 period, but during the first six months of 1934 they showed a large increase, which cut heavily into the sales of American goods.¹⁶ As a result, the Philippine government is planning a tariff revision designed to protect imports from the United States. A warning against such action, issued by the Japanese Consul-General at Manila on August 16 declared that there "probably would be serious effects" unless the Philippines, in preparing for independence, should give careful consideration to other nations as well as the United States.¹⁷ On August 31 the Japanese government made official representations at Washington and Manila against the proposed tariff revision.¹⁸

GAINS IN NEWER MARKETS

Measured in yen, Japan's exports to all Asiatic countries in 1933 were slightly above the previous high peak of 1929. In its oldest established markets, Japan has thus completely regained the position occupied in pre-depression years. This recovery, however, falls far short of the gains achieved in the newer markets of Africa, the Near East and Latin America. In 1933 Japanese exports to Africa and Oceania, as shown in Table V, totaled approximately double the 1928-1929 level. Large gains were made in Egypt, South Africa and East Africa, but the widespread character of the advance is most clearly illustrated by the 30 million yen gain in the miscellaneous countries labeled "Others."

The value of Japan's exports to Australia doubled in 1932, and increased still further

10. Sir Arthur Salter estimates that total imports into China are 15 to 20 per cent higher than those recorded. Cf. Salter, *China and Silver* (New York, Economic Forum, Inc., 1934), p. 69. Cf. also League of Nations, *Report of the Commission of Enquiry, Supplementary Documents*, p. 177-182. For seizure of Japanese ships engaged in smuggling, cf. *New York Times*, July 8, 1934.

11. For revised rates, cf. *Chinese Economic Bulletin*, July 7, 1934, p. 3-20. While the rates were generally revised upward, reductions were confined almost wholly to classes of goods in which Japan is heavily interested.

12. Cf. p. 202.

13. *The Trans-Pacific*, May 24, 1934, p. 5. An arbitration and conciliation treaty has recently been concluded between Japan and the Netherlands. *Ibid.*, May 17, 1934, p. 11. The latter, however, is preparing to reinforce its naval, air and land defenses in the Dutch East Indies. *New York Herald Tribune*, September 4, 1934.

14. *The Trans-Pacific*, August 2, 1934, p. 3, 6.

15. *Memorandum on Japanese Trade Expansion* (American Council, Institute of Pacific Relations), September 21, 1934.

16. From 9 million yen in the first half of 1933, Japanese exports to the Philippines jumped to 17 million yen in the first half of 1934. *The Oriental Economist* (Tokyo, Toyo Keizai Shimpō Sha), August 1934, p. 46.

17. *New York Times*, *New York Herald Tribune*, August 17, 1934.

18. *New York Times*, August 31, 1934.

in 1933. Since Australia's exports to Japan totaled ¥204,586,330 in the latter year, however, the balance is highly "favorable" to Australia. In an effort to cement this position, Mr. John G. Latham, the Australian Foreign Minister, visited Japan in May 1934 on a good-will tour. As a result of Mr. Latham's talks with Foreign Minister Hirota, Australia

plans to appoint a Trade Commissioner to Tokyo. The possibility of negotiating an Australian-Japanese commercial treaty, presumably as a means to rectifying Japan's adverse trade balance, was also suggested. Foreign Minister Hirota further assured Mr. Latham that Japan had no intention of fortifying its South Sea Island mandates.¹⁹

Table V

Japan's Exports to Africa and Oceania, 1928-1933²⁰
(in thousands of yen)

Country	1928	1929	1930	1931	1932	1933
Egypt	23,714	31,352	28,997	22,830	41,877	55,608
Union of South Africa	11,694	13,179	14,196	19,283	16,418	26,741
East Africa	6,426	13,123	10,663	10,868	15,760	23,175
Australia	43,000	44,075	25,486	18,406	36,895	51,416
New Zealand	3,092	4,094	3,226	1,967	2,993	6,452
Hawaii	6,472	6,271	6,392	5,624	6,676	6,484
Others	2,545	3,280	3,708	6,483	12,353	32,742
TOTAL (in yen)	96,946	115,376	92,671	85,459	132,973	202,619
GOLD DOLLARS	44,993	52,188	45,770	41,747	37,379	40,747

Japan's exports to Latin America in 1933, as shown in Table VI, registered a remarkable gain over those for 1932, and totaled approximately double the 1928-1929 average. Despite this showing, total Japanese exports to this area—amounting to 46.5 million yen—represent only a small fraction of the aggregate Latin-American trade. Additional large gains, however, were made during the first six months of 1934.²¹

In certain other respects, Japan has recently experienced a series of reverses in its relations with Latin America. Despite negotiations extending over eighteen months, no success has attended the efforts of the Permanent Japanese Trade Committee to conclude commercial treaties with the larger Latin-American countries, owing apparently

to Japan's failure to realize or meet the growing demand for reciprocal trade.²² During this time, moreover, Brazil virtually banned Japanese immigration, thus reversing a long-standing policy; Uruguay refused to allow Japan to open factories in the town of Colon; and Argentina threatened to "balance" Japanese-Argentine trade, which favored Japan by 5.5 million yen in 1933.

El Salvador's exports to Japan, consisting chiefly of coffee, jumped from 3,000 yen in 1932 to 106,000 yen in 1933. The latter figure still remained well below Japan's exports of 685,000 yen to El Salvador. Prospects of further expansion of Salvadorean coffee sales in Japan, however, apparently influenced El Salvador's recognition of Manchoukuo, which became effective on March 3, 1934.²³

Table VI

Japan's Exports to Latin America, 1928-1933²⁴
(in thousands of yen)

Country	1928	1929	1930	1931	1932	1933
Mexico	1,312	1,342	1,032	666	638	1,492
Cuba	611	1,256	1,248	641	962	3,328
Salvador .....	....	....	483	385	394	685
Panama Canal Zone .....	....	....	376	450	551	1,110
Peru	1,785	2,601	2,234	800	841	3,900
Chile	1,884	2,719	2,471	805	287	1,476
Argentina	6,970	8,579	4,448	4,701	7,553	12,262
Brazil	1,982	1,572	958	642	1,330	2,766
Uruguay .....	....	....	4,114	1,151	423	2,451
Others*	11,993	11,507	3,706	3,286	5,285	17,085
TOTAL (in yen)	26,540	29,580	21,073	13,527	18,264	46,555
GOLD DOLLARS	12,317	13,636	10,408	6,608	5,134	9,362

*A slight excess for 1928-1930 is recorded, since the figures for these three years include "others" for North America as well as Latin America.

19. *The Trans-Pacific*, May 17, 1934, p. 11-12; for effects of this Australian-Japanese détente on Great Britain, cf. *The Economist*, May 19, 1934, p. 1080.

20. *The Japan Year Book*, 1933, cited, p. 401; *Monthly Return of the Foreign Trade of Japan*, cited, December 1933, p. 49.

21. Exports to Latin America in the first six months of 1934

aggregated ¥41,456,000—nearly equal to the export total for the whole of 1933. Cf. *The Oriental Economist*, cited, August 1934, p. 46.

22. *New York Herald Tribune*, August 26, 1934.

23. *New York Times*, May 22, 1934.

24. *The Japan Year Book*, 1933, cited, p. 401; *Monthly Return of the Foreign Trade of Japan*, cited, December 1933, p. 49.

JAPANESE-AMERICAN TRADE

Contrary to the general trend in the areas previously considered, Japan's export trade with the United States—as indicated in Table VII—shows virtually negligible increases in 1932 and 1933. A loss of more than 400 million yen in the value of Japan's sales to the United States between 1929 and 1930 has never been regained in subsequent years. During the first six months of 1934, moreover, the value of Japan's exports to this country showed a decline as compared with the corresponding period for 1933.

On the other hand, Japan's imports from the United States have markedly increased during the past two years, until in 1933 the total import value approximated that of 1929.²⁵ A further increase of more than 50 million yen in Japan's imports from the

United States took place during the first six months of this year.

These developments have resulted in a remarkable shift in the balance of trade between the two countries. A "favorable" balance of trade for Japan between 1929 and 1931 has been transformed into an "adverse" balance since 1932. This tendency seems to be strengthening, since Japan's excess of imports in the first half of the current year already greatly exceeds that for the whole of 1933. Despite this situation, Japanese competition has adversely affected certain special industries in the United States during recent years. In cases of this kind, however, tariff increases directed mainly at Japanese goods might jeopardize the large and growing market that Japan affords for American products.

Table VII

Japan's Trade with the United States, 1929-1934²⁶
(in thousands of yen)

	1929	1930	1931	1932	1933	1933 1st half	1934 1st half
Exports	914,084	506,220	425,330	445,147	492,237	216,546	191,157
Imports	654,060	442,882	342,289	509,873	620,778	315,977	367,101
Balance	+260,024	+63,338	+83,041	-64,726	-128,541	-99,431	-175,944

CONTENT OF JAPAN'S EXPORT TRADE

The great bulk of Japan's export trade consists of the products of light industry, or of semi-finished goods such as raw silk. First place is held by textile yarns and fabrics, which have long constituted Japan's primary exports. A recent development in this field has been the notable advance in sales of rayon and woolen textiles. Since 1931 the export of Japanese rayons and woolens, as illustrated in Table VIII, has increased much more rapidly than that of silk

and cotton goods. The total value of rayon and woolen exports in 1933 was well above 100 million yen. Profits realized by Japanese rayon and woolen companies have increased in direct proportion to the expansion of their sales abroad. The profits of Japanese woolen companies increased from 12.2 per cent in the first half of 1932 to 17.5 per cent in the second half of 1933. Similarly, profits of the rayon companies increased from 10.4 per cent to 24.2 per cent over the same period.^{26a}

Table VIII

Exports of Japanese Textiles, 1931-1933²⁷
(in thousands of yen)

Type	1931	1932	1933	2-Year Gain
Raw silk	355,394	382,366	390,901	10.0
Cotton yarn	8,511	21,547	15,712	84.6
Rayon yarn	2,245	5,911	9,483	422.4
Woolen yarn	861	1,697	5,293	614.7
Silk piece goods	43,053	50,288	63,545	147.6
Cotton piece goods	198,732	288,713	383,215	192.8
Rayon piece goods	39,713	60,540	77,382	194.9
Woolen piece goods	1,396	4,481	12,377	886.6
TOTAL	649,905	815,543	957,908	

25. Japan's purchases of raw cotton, scrap iron, lead, copper and zinc showed the greatest increases in 1932-1933. *Monthly Return of the Foreign Trade of Japan*, cited, December 1933, p. 68-78.

26. *Financial and Economic Annual of Japan, 1933*, cited, p. 126-129; *Monthly Return of the Foreign Trade of Japan*, cited,

December 1933, p. 49; *The Oriental Economist*, cited, August 1934, p. 46.

26a. *Supplement to Monthly Circular* (Tokyo, Mitsubishi Economic Research Bureau), June 1934, Tables, p. 6.

27. *Monthly Circular* (Tokyo, Mitsubishi Economic Research Bureau), June 1934, p. 11.

EXPORTS OF COTTON CLOTH

The remarkable advances in Japan's export of cotton piece goods, shown in Table IX, have been widely distributed. The largest increases have occurred in Manchuria, the Dutch East Indies, British India (in 1932), Egypt, Australia, and in the miscellaneous countries grouped in "Others." This expansion has continued in the face of rising tariff barriers, which seem to have been effective only in British India, Turkey, and South Africa. Despite these setbacks, the Japanese cotton manufacturers in 1933 surpassed the record export total of 1932 by nearly 60 million square yards.

The major reduction in 1933 was suffered in British India, where Japan's unprecedented 1932 export of 644,685,000 square

yards was cut by nearly one-third. Even more striking is the apparent large decline of sales to Chinese areas since 1929, as a result of factors already noted.²⁸ The gains in exports to Manchuria and the Kwantung leased territory were wiped out by the large losses in China proper and Hongkong. In 1929 Japan sold 671,346,000 square yards of cotton cloth to these four Chinese areas; in 1933 it sold only 319,869,000 square yards.

A comparison of the volume and value totals from 1929 to 1933 shows the considerable reduction that has taken place in the prices of Japan's cotton goods. Even on the basis of a depreciated yen, the unprecedented export volume of 1932 and 1933 was sold for considerably less than the smaller export volume in 1929. The decline in gold value, moreover, persisted through 1932 and 1933.

Table IX

Japan's Exports of Cotton Cloth, 1929-1933²⁹
(in thousands of square yards)

Country	1929	1930	1931	1932	1933
China Proper	530,605	436,409	218,391	187,357	113,226
Manchuria .....	....	....	21,054	15,237	91,911
Kwantung Territory ..	56,228	45,399	37,934	88,838	86,040
Hongkong	84,513	105,974	63,450	23,406	28,692
British India	581,105	404,251	404,411	644,685	451,803
Straits Settlements ...	29,472	44,552	41,305	82,228	95,769
Dutch East Indies	193,443	182,865	212,107	352,234	423,009
Philippines	26,550	35,127	33,423	21,410	34,918
Siam	17,833	16,132	5,884	24,458	39,826
Turkey	10,727	20,359	25,150	41,529	11,157
United States	615	351	488	1,646	7,485
Chile	4,479	6,176	2,360	1,263	6,534
Argentina	17,640	7,289	10,540	22,461	34,942
Uruguay	313	404	490	396	2,611
Egypt	107,404	109,015	103,799	195,435	210,351
South Africa	13,788	23,686	39,033	36,316	26,101
Australia	13,765	14,153	20,939	35,992	54,997
New Zealand	728	830	670	1,238	2,622
Hawaii	540	828	813	1,152	931
Others	100,812	118,025	171,539	254,441	367,303
TOTAL	1,790,560	1,571,825	1,413,780	2,031,722	2,090,228
VALUE (in thousands of yen)	411,545	272,117	198,732	288,713	383,215
VALUE (in thousands of gold dollars)	189,722	134,399	97,081	81,157	77,065

28. Cf. p. 197-198.

29. *The Japan Year Book, 1933*, cited, p. 558; *Monthly Return of the Foreign Trade of Japan*, cited, December 1933, p. 56-57.

Aside from textiles, Japan's trade expansion has rested chiefly on increased sales of a large number of miscellaneous manufactured products. The growth in the export of a selected list of these articles is shown in Table X. It is against the influx of these goods, as well as Japan's textiles, that tariff barriers have been raised and import quotas levied in many countries.

Table X partially illustrates the growing extent to which Japan's exports consist of finished goods, even though they are predominantly the products of light industry. This important shift in the class of goods exported by Japan is most clearly revealed in Table XI. It was evident before the depression, but has proceeded at an accelerated rate since the revival of Japan's export trade in 1932.

Table X

Japan's Exports of Selected Manufactures, 1931-1933³⁰

(in thousands of yen)

Product	1931	1932	1933
Potteries and glass	25,842	32,219	50,961
Drugs, chemicals, medicines, and explosives	22,171	29,791	48,204
Foods (tinned and bottled)	18,948	22,774	46,984
Metal manufactures	16,018	21,100	42,604
Boots, shoes and clogs	17,679	20,666	29,630
Vehicles and parts	8,442	11,506	28,342
Toys	9,824	15,119	26,375
Oils, fats, waxes and soap	13,610	19,759	26,321
Machinery and parts	13,641	10,943	25,857
Wood manufactures	9,954	11,329	18,638
Lamps and parts	7,784	12,754	15,863
Dyes, pigments and coatings	4,128	6,018	11,742
Clocks and scientific instruments	3,848	4,762	11,699
Jewelry	4,361	5,435	8,367
Plaits	1,821	3,228	7,205
TOTAL	178,071	227,403	398,792

Table XI

Percentage Changes in Classes of Japan's Exports³¹

Year	Foodstuffs	Raw Materials	Semi-Finished	Finished	Others
1914	10.8%	7.7%	51.8%	28.4%	1.3%
1916	10.7	5.2	38.6	43.5	2.0
1922	6.4	5.2	51.5	35.5	1.4
1924	6.3	5.8	47.7	39.0	1.2
1926	7.2	6.9	43.1	41.7	1.1
1928	7.9	4.5	41.8	41.2	4.6
1929	7.4	4.1	41.1	43.6	3.8
1930	8.8	4.4	35.7	47.0	4.1
1931	8.9	3.9	36.9	46.5	3.8
1932	8.1	3.7	35.6	51.3	1.3
1933	8.7	4.0	29.4	56.3	1.6

ANGLO-JAPANESE TEXTILE COMPETITION

The cotton manufacturers of Lancashire, as well as those of British India, have been severely affected by the recent expansion of Japan's cotton cloth exports. As early as August 1932 the Government of India took action to meet this threat, through higher tariffs and an increased preference for British goods. Following an acute controversy in 1933, the questions at issue between Japan and India were settled early in 1934.³²

THE INDO-JAPANESE TRADE PACT

The trade agreement reached after protracted negotiations at the Simla conference has since been incorporated in a new Indo-Japanese commercial treaty, effective until March 31, 1937.³³ By the terms of this agreement, each country is guaranteed most-

favoured-nation treatment. Nevertheless, the Indian government may impose special duties on Japanese products to correct the effects of any further variation of the yen-rupee exchange rate subsequent to December 31, 1933. Similar action may be taken by the Japanese government provided the exchange value of the rupee falls below the value of 0.732 yen. Without prejudice to the above stipulations, the Government of India is given the right to impose duties up to a maximum of 50 per cent on Japanese cotton goods, thus permitting a 25 per cent preference to British goods.³⁴

Elaborate quota provisions govern the specific amounts of Japanese cotton goods that may be sold to India in return for specified purchases of Indian raw cotton. The basic quota provides that from April 1 to March 31 Japan may sell 325 million linear yards of cotton piece goods to India in return for the purchase of one million bales of Indian raw cotton from January 1 to Decem-

30. *Monthly Return of the Foreign Trade of Japan*, cited, December 1933, p. 4-22.

31. *The Oriental Economist*, cited, August 1934, p. 13. It should be noted that raw silk is listed under the category of semi-finished products.

32. For details of the Indo-Japanese controversy, cf. T. A. Bisson, "The New Status in the Pacific," *Foreign Policy Reports*, January 17, 1934, p. 265-266.

33. *Convention regarding Commercial Relations between India and Japan*, July 1934, Cmd. 4660 (London, H. M. Stationery Office; British Library, New York).

34. The maximum duty of 50 per cent is now in effect. It represents a reduction from the 75 per cent rate that went into effect on June 6, 1933.

ber 31 of the corresponding year. This basic quota may be increased at the rate of 1,500,000 linear yards of cotton cloth for every additional 10,000 bales of raw cotton up to a maximum of 400 million yards. The annual quotas are also subdivided into half-yearly quotas. Furthermore, the Japanese piece-goods quota is classified into categories which are admitted to India only in the following percentages: plain greys, 45 per cent; bordered greys, 13 per cent; bleached, 8 per cent; colored (printed, dyed or woven), 34 per cent. Finally, numerous provisions govern permitted variations or overlappings in the specified quotas.

The ingenious adjustment of the conflicting Japanese and Indian cotton interests effected by this treaty may perhaps be taken as an illustration of the possibilities inherent in such reciprocal trade agreements. At the same time, it should be recognized that

the basic requirements for a commercial exchange seldom dovetail so neatly as in the case of Indian raw cotton for Japanese cotton goods.

ANGLO-JAPANESE TRADE CONTROVERSY

This Indo-Japanese accord still left unsettled the broader issue of Japan's intensified competition with the Lancashire cotton manufacturers in other world markets. Prior to the depression, Japan's share of world cotton cloth exports had been gradually increasing while Britain's was declining, although in 1929 British exports still totaled twice those of Japan. After 1929, however, this gradual change was greatly accelerated, until by 1933 Japan's export total for the first time surpassed that of Great Britain. The changes that have occurred since 1927 in the Anglo-Japanese race for textile primacy are shown in Table XII.

Table XII

Anglo-Japanese Shares of World Cotton Cloth Exports, 1927-1933³⁵
(in millions of square yards)

Year	Total Volume	Index of Volume	Britain	Index	Per cent of Total	Japan	Index	Per cent of Total	Others	Index	Per cent of Total
1927	7,970	100.0	4,117	100.0	52	1,364	100.0	17	2,489	100.0	31
1928	7,787	97.7	3,886	94.4	50	1,419	104.0	18	2,502	100.5	32
1929	7,877	98.8	3,672	89.2	47	1,791	133.0	23	2,414	97.0	30
1930	5,868	73.6	2,407	58.5	41	1,572	115.0	27	1,889	75.9	32
1931	4,798	60.0	1,716	41.7	36	1,414	103.7	29	1,668	67.0	35
1932	5,582	70.0	2,198	53.4	39	2,032	149.0	36	1,352	54.3	25
1933	5,372	67.7	2,032	49.3	38	2,089	153.1	39	1,231	49.4	23

In the period from 1927 to 1933, during which the volume of world textile exports declined by one-third and of British exports by one-half, Japan's exports increased by one-half.³⁶ But whereas the British decline aggregated 2,100 million square yards during these years, the Japanese gain amounted to only 700 million square yards, so that Japanese competition cannot be held responsible for more than one-third of the loss suffered by the Lancashire manufacturers. The major share of the loss has resulted from the growth of local industries in former markets, particularly China and India, and the effects of the world depression.

The remarkable advance experienced by Japan's textile trade during a major depression, however, necessarily caused misgivings in Lancashire. In the spring of 1933, tariff increases affecting Japanese goods were put into effect not only in India but also in Egypt, the Straits Settlements, and British East Africa. At this time, also, the British government gave the one-year notice required for termination of the commercial treaty be-

tween Japan and British West Africa. Even before these steps had been taken, plans for a joint conference between representatives of the British and Japanese cotton interests had been considered.³⁷ Final arrangements for this meeting were concluded in August 1933. Informal discussions began at London in September, but were necessarily inconclusive pending the results of the Simla conference. The Indo-Japanese trade agreement was signed in January 1934, and on February 14 the Anglo-Japanese negotiations were resumed at London. A deadlock at once ensued. The British delegates desired a limitation of textile exports to world markets, but the Japanese representatives were unwilling to accept restrictions beyond the markets of Great Britain and the Crown Colonies. The conference finally broke down over this difference on March 14.

The British government at once instituted official conversations with the Japanese Ambassador at London in a further attempt to reach an agreement.³⁸ At the end of March Mr. Walter Runciman, president of the Board of Trade, inquired whether Japan had

35. Oliver L. Lawrence, "Competition in the World Textile Market," *Pacific Affairs*, June 1934, p. 170-171.

36. *Ibid.*, p. 171.

37. *Ibid.*, p. 173-174, 176-177.

38. *New York Times*, March 16, 1934.

any proposals to make. The Japanese government expressed its willingness to consider further British proposals, but stated that it had none of its own to offer.³⁹ On May 3 Mr. Runciman informed the Japanese Ambassador that Great Britain was obliged to resume the liberty to take such action as might be deemed necessary to safeguard its commercial interests.⁴⁰ Failing to receive a reply, Mr. Runciman announced to the House of Commons on May 7 that the British government was taking steps to establish immediate import quotas for foreign cotton and rayon textiles in all the Crown Colonies.⁴¹ These quotas were fixed on the basis of the average textile exports of foreign countries to the colonies over the period from 1927 to 1931 inclusive. In Japan's case, limitation to the quota thus obtained reduced its textile exports to the Crown Colonies by more than 57 per cent.

Meanwhile, Japan had made preparations

to deal with the possibility of a protracted trade war. A trade defense act passed by the Diet in April empowered the government, after approval by a tariff board, to raise or lower existing duties by a maximum of 100 per cent, and to restrict or prohibit imports and exports.⁴² Since the British action in May, however, the situation has eased considerably. Resort has not been made to threatened restrictions on Japan's exports to the United Kingdom, or to the abrogation of the Anglo-Japanese commercial treaty.⁴³ Instead, the Federation of British Industries has sent an influential trade delegation to visit Japan and Manchoukuo in search of new markets. Japan, for its part, has accepted the quota restrictions in the Crown Colonies without serious protest, since the curtailment of Japanese textile exports thereby effected—amounting to hardly more than 5 per cent of the total—can be made up in other markets.

JAPAN'S COMPETITIVE ADVANTAGES

Two major causes have been responsible for the notable advance in Japan's export trade during the past few years: first, low production costs; second, the extreme depreciation of the yen. In combination, these two factors have enabled Japan to sell at prices that defy competition from the industrial countries of the West. The most careful studies, however, indicate that currency depreciation has been the more important factor.

LOW PRODUCTION COSTS

The cheap production costs of Japanese industry are due, in the first instance, to relatively low wages and long hours. Evidence presented in the recent report of the director of the International Labor Organization, however, tends to negative the widespread assumption that Japan's trade expansion constitutes a form of "social dumping," resulting from excessively low wages and bad labor conditions. According to this report, Japanese wages in 1931 were virtually equivalent in gold value to those of Italy and Poland, although considerably below those of Great Britain.⁴⁴ In subsequent years,

moreover, the deterioration of wages and labor conditions in Japan has been no more excessive than in other countries.⁴⁵ It should also be recognized that money wages do not afford an adequate basis for estimating the comparative living standards of Japanese and Western workers. The items entering into the cost of living of a Japanese worker result in a different and cheaper, but not necessarily a lower standard of living than that of a Western worker.

Japanese factory operatives not only receive low wages—they also work long hours. Here again, however, while the difference is considerable when compared with the hours of factory workers in the favored industries of Western countries, it does not constitute an excessive advantage. Figures presented by the Japanese delegates to the International Labor Conference show that the working hours in Japanese factories averaged 9.28 per day on October 1, 1930.⁴⁶ At this date only 40.2 per cent of these factory workers received four rest days a month; the majority of the others received but two rest days a month.⁴⁷ On this basis, the bulk of Japanese factory operatives work from 55 to 60 hours a week. While these hours are long, they can be duplicated in many industrial countries of the West.

Finally, it should be noted that wages and hours are not the only factors which deter-

39. Cf. Mr. Runciman's statement of May 7, 1934 to House of Commons. *Parliamentary Debates*, House of Commons, May 7, 1934, Vol. 289, col. 216.

40. *Ibid.*

41. *Ibid.*

42. Law Concerning Adjustment of Trade and Safeguarding of Commerce, made effective on May 1, 1934. For text, cf. James Scherer, *Japan's Advance* (Tokyo, The Hokusaido Press, 1934), Appendix E, p. 336-338.

43. Direct Anglo-Japanese trade is increasing and virtually balances, so that such action would harm Great Britain as much as Japan. Cf. *Monthly Return of the Foreign Trade of Japan*, cited, December 1933, p. 48.

44. International Labor Conference, Eighteenth Session, *Report of the Director* (Geneva, International Labor Office, 1934), p. 18; Appendix I, Table I, p. 82.

45. *Ibid.*, p. 18, 37.

46. S. Yoshisaka and J. Kitaoka, *Some Facts with regard to Industrial and Social Conditions of Japan*, p. 14. These hours have since been somewhat increased. Cf. p. 207.

47. *Ibid.*, p. 15.

mine the labor costs of an industry. The productivity per unit of labor is at least equally important, especially in international comparisons. With the possible exception of the textile industry,⁴⁸ it is questionable whether the productive capacity of the Japanese worker is equal to that of the workers in advanced Western countries. In many cases, the competitive advantage conferred by the long hours and low wages of Japanese factory operatives would thus be at least partially compensated for by their lower productivity.

In general, it may perhaps be assumed that in a period of exchange stability the labor costs of Japanese industry are at least as low as and probably somewhat lower than those of the most economically managed industries in Western countries. Whatever the actual differential may be, however, it would not be sufficient by itself to account for Japan's extraordinary invasion of world markets since 1932.

RATIONALIZATION IN JAPANESE INDUSTRY

In addition to low labor costs, Japanese industry—particularly the textile industry—has derived a further advantage from an increasing degree of efficiency both in organization and management. During the 1919-1929 period the Japanese industrialists had actively promoted the formation of cartels and trusts.⁴⁹ When the Minseito government took office in 1929, this movement was greatly accelerated by the adoption of a policy which officially encouraged industrial rationalization. The Principal Industries Control Act, as drafted by the Bureau for Rationalization of Industry, was passed by the Diet in March 1931 and went into effect in August of that year. It has since been applied to virtually all the chief industries of Japan. The aims of this act—to restrain reckless competition, to promote the formation of trade associations, and to strengthen the control of industry through such associations—are essentially similar to those of the National Industrial Recovery Act in the United States. No effort was made through this Act, however, to control wages or hours of work,

and the official "Committee on Industrial Control" contains no representatives of labor or of the consumer.⁵⁰ Several legislative enactments of the Japanese Diet also deal with the control of small industries and trades. Finally, in a number of selected industries, either special government committees or the industrialists themselves have instituted a program involving the fixing of production quotas, the establishment of joint sales offices, and if necessary the enforcement of minimum prices.

Official sponsorship of the rationalization movement gave added impetus to the progressive improvement in technical and managerial skill which was already taking place in the most advanced Japanese industries before 1929. The Japanese textile industry constitutes the pre-eminent illustration of this development. It utilizes the most up-to-date machinery, and is quick to adopt new improvements. Flexible adaptation of the type and quality of textile fabrics to the demands of particular consumer areas further enhances the attractiveness of Japanese goods. Large economies are also realized through centralization of the purchase of raw material and sale of the finished product.⁵¹ In many of these respects, the Japanese textile industry enjoys a competitive advantage over the Lancashire mills solely on the basis of superior technical efficiency. A campaign to introduce measures which would overcome these deficiencies has recently been gaining momentum in Great Britain.⁵²

On the whole, however, the results of the rationalization movement in Japanese industry have only approximated the technical levels reached by the most advanced Western industries. With the possible exception of textiles, the increased efficiency of Japanese industry has merely lessened a competitive advantage that in many cases still rests with the West. Nevertheless, the gains derived from rationalization served further to reduce the costs of production in Japan, especially after 1929.

DEPRECIATION OF THE YEN

By reason of the low production costs of its industry, Japan's export trade—particularly in textiles—was gradually forging ahead of its chief competitors even in the 1927-1931 period.⁵³ The added effects of the

48. The use of the most modern automatic machinery enables the Japanese textile workers to tend many looms, so that the output per textile worker is steadily increasing. In cotton spinning the average annual output per worker increased from 13 bales in 1923 to 22 bales in 1932; in cotton weaving, the output per worker increased from 20 thousand yards in 1923 to 50 thousand yards in 1932. (Yoshisaka and Kitaoka, *Some Facts with regard to Industrial and Social Conditions of Japan*, cited, p. 16.) While indicative of increasing efficiency, these figures would not be conclusive evidence of Japanese superiority except on the basis of careful comparison with similar figures for American or Lancashire mills.

49. *Problems of the Pacific, 1933* (Chicago, University of Chicago Press, 1934), p. 254-270. Document I. "The Control of Industry in Japan," prepared by the Tokyo Institute of Political and Economic Research.

50. *Ibid.*, p. 261.

51. Some twenty-five Japanese firms buy all the raw cotton for the mills, but four large firms handle 60 per cent of the total. The sale of the finished fabrics is equally concentrated. *Far Eastern Social Information* (Tokyo, Research Institute for Social Problems), August 21, 1934, p. 6.

52. Lawrence, "Competition in the World Textile Market," cited, p. 178-179.

53. Cf. Table XII, p. 203.

rapid depreciation of the Japanese yen in 1932 and 1933 were sufficient to confer a decisive advantage on Japan's export trade.⁵⁴ This advantage, however, should normally prove but temporary, as a result of the eventual equalization of price levels. In the case of Japan, which must import large amounts of raw materials—notably raw cotton—the compensatory action should operate with special force. The fact that Japanese cotton manufacturers, prior to Japan's departure

from the gold standard, had purchased large stocks of American raw cotton at cheap prices, blunted the immediate effect of this factor.

An attempt to establish a quantitative estimate of the competitive advantage enjoyed by Japan over Great Britain and the United States as the result of currency depreciation, taking into account the fluctuations of internal price levels, is made in Tables XIII and XIV.

Table XIII

Exchange and Price Level Comparison: Japan and Great Britain⁵⁶
(1930=100)

Date	Prices in Japan A	Yen-Sterling Rate (par=100) B	Japanese Prices in Sterling C=AxB	Prices in Britain D	Differential E=C÷D	Percentage of Export Advantage of Japan 100-E
1930	100.00	99.26	99.26	100.00	99.26	0.74
1931	84.50	106.83	90.27	83.61	92.62	7.38
1932	88.96	78.55	69.88	80.62	86.60	13.40
1933	99.12	59.52	59.00	81.37	72.51	27.49
Mar. 1934	97.73	57.71	56.40	84.27	66.93	33.07

Table XIV

Exchange and Price Level Comparison: Japan and United States⁵⁶
(1930=100)

Date	Prices in Japan A	Yen-Dollar Rate (par=100) B	Japanese Prices in Dollars C=AxB	Prices in U. S. A. D	Differential E=C÷D	Percentage of Export Advantage of Japan 100-E
1930	100.00	99.08	99.08	100.00	99.08	0.92
1931	84.50	98.00	82.81	84.49	98.01	1.99
1932	88.96	56.40	50.17	74.96	66.93	33.07
1933	99.12	51.45	51.00	76.33	66.81	33.19
Mar. 1934	97.73	60.20	58.83	85.29	68.98	31.02

The results shown in these tables may be taken as sufficiently accurate to establish the existence of a substantial exchange advantage favoring Japan's export trade since 1932. Owing to the fact that currency depreciation has so far resulted in only a moderate rise of internal Japanese prices, the export advantage has been prolonged over several years. As in other countries, the burdens of the inflationary process have been placed on the shoulders of the working

class. The continued decline of wages and lengthening of hours, shown in Table XV, has further negated the compensatory effects on Japan's competitive position in international trade that should have followed currency depreciation. Japan's trade expansion has stimulated business activity, increased earnings and resulted in greater employment, but at the same time has lowered the living standards of the employed workers.

54. The charge has often been made that Japan's departure from the gold standard constituted a deliberate effort to buttress its export trade. While this consideration necessarily affected the decision, it should be noted that during the three months following Britain's action in September 1931—a period featured by heavy exports of Japanese specie—Japan made desperate efforts to maintain the gold standard. The economic policy of the Minseito government then holding office in Japan was centered on the maintenance of the gold standard. This

policy was not reversed until the Minseito government had been overthrown. As in the case of Great Britain, Japan's departure from the gold standard was a forced measure. Cf. Ben Dorfman, "Japan and Her Gold Standard," *China Weekly Review* (Shanghai), January 2, 1932.

56. Computed from League of Nations, *Monthly Bulletin of Statistics*, May 1934: wholesale price levels, p. 217; exchange rates, p. 223.

Table XV

*Indices of Employment, Wages, and Earnings*⁵⁸
(Monthly Average, 1926=100)

	<i>Number of Workers</i>	<i>Wage Rates</i>	<i>Earnings</i>	<i>Hours per Day</i>
1931	74.4	91.3	90.7	9.34*
1932	74.7	88.1	88.1	9.39*
March 1933	79.5	86.0	91.6	9.46
March 1934	87.8	83.5	94.0	9.50

*March.

PRICES OF JAPANESE GOODS

The combined advantages of low production costs and the wide exchange differential have enabled Japanese industry to sell its products at extraordinarily low prices. In textiles, for example, the Japanese product has been selling at a level from 30 to 59 per cent below the cost of production in Lancashire mills.⁵⁹ That the low sale prices of Japanese goods do not constitute "dumping," if the term is defined as selling below the cost of production, is sufficiently indicated by the profits reaped by Japanese firms since the export boom began.⁶⁰ Available evidence indicates, moreover, that Japan's export prices are not lower than those charged on goods sold for home consumption.^{60a} On the other hand, it is probably true, as alleged by Lancashire manufacturers,⁶¹ that the Japanese concerns are shaving their profit margins rather than attempting to charge what the market will bear. This policy is particularly effective in a period of world-wide

depression, when price, rather than quality, considerations bulk largest in the mind of the customer.

If the interests of the consumer are taken into account, Japanese manufacturers may well argue that they have performed a distinct service during these years, especially in Asia, Africa and Latin America, where living standards that were already low have been forced still lower by the depression. Under these conditions, the imposition of quota systems or the raising of tariff barriers against Japanese imports into the British Crown Colonies, the Dutch East Indies and the Philippine Islands, where no important local industry is affected by Japanese competition, constitutes the exercise of foreign political control in behalf of home industry to the detriment of the colonial peoples. Among the benefits enjoyed by colonial populations in such cases, as *The Economist* points out, is the doubtful privilege of buying more expensively from their respective ruling countries.⁶²

CONCLUSION

The continued increase of Japanese exports in 1934 indicates that the limits of Japan's trade expansion have not yet been reached. During the first six months of 1934 the export value of Japanese goods totaled 1,003 million yen, as against 829 million yen in the corresponding period of 1933.⁶³ On this showing, Japan's total exports for 1934 will be likely to equal or surpass the previous high level of 1929.

It is clear that the factors which have combined to give Japanese manufacturers a decisive advantage in world trade are continuing to operate in their favor. At the same time, a number of tendencies working in the contrary direction have been steadily gaining strength. New tariff barriers against Japanese goods are continually being erected. Where these prove insufficient, there is a growing trend toward the rationing of

Japanese imports on a quota basis. The normal process of the equalization of internal price levels, following exchange depreciation, should eventually act to eliminate the advantage of the depreciated yen. This process, owing to a variety of causes, is apparently taking place very slowly. As long as the exchange advantage persists, Japanese trade should at least be able to maintain an export level approximating the pre-depression years.

On a long-term view, the major threat to Japan's export trade is the growth of local industry in areas that are now markets for Japanese products—a development that has already gone far in China and British India. In such cases, the need for protecting the growing local industry provides compelling reasons for the application of higher tariffs and quota systems. Japan has sought to counteract this development in China both

58. *Monthly Circular*, Mitsubishi Economic Research Bureau, cited, August 1934, p. 9-10.

59. Lawrence, "Competition in the World Textile Market," cited, p. 178.

60. For profits of Japanese firms during the 1932-1933 period, cf. *Monthly Circular* (Supplement), Mitsubishi Economic Research Bureau, cited, June 1934.

60a. Scherer, *Japan's Advance*, cited, p. 200.

61. Lawrence, "Competition in the World Textile Market," cited, p. 178.

62. *The Economist* (London), May 12, 1934, p. 1019.

63. *The Oriental Economist*, cited, August 1934, p. 46.

by means of drastic political pressure and also by establishing Japanese-controlled industries—particularly in textiles—in Shanghai and other Chinese cities. Such methods, however, cannot be applied to all areas where new local industries are being developed. Over a long period of time, there is no certainty that they will be effective even in China.

Japan's trade expansion has undoubtedly exerted an adverse effect on certain special industries in other countries which come into direct competition with Japanese export manufacturers. In extreme cases, the struggle has been so severe as to result in the partial or complete shutdown of the busi-

ness of Japan's foreign competitor, throwing numbers of men out of work. On the other hand, whole populations—particularly in colonial areas—have been enabled to buy cheap goods which they might otherwise have lacked during years of dire economic stringency. Furthermore, for many Western exporters the rapid growth of Japan's imports—from 1,235 million yen in 1931 to 1,917 million yen in 1933—has opened up an important market for the sale of either raw materials or manufactured products. Under these circumstances, it is obvious that the expansion of Japan's foreign trade, far from being a menace, represents a distinct gain for the world as a whole.